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SUBJECT: Mongolia Creates New State Holding Company for Government's
Equity in Mines

Reftels: a) UB 123 b) UB 119, c) UB 216

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¶1. (SBU) SUMMARY: The Government of Mongolia (GOM) has established a new state-owned holding company named ERDENES-MGL to receive and manage its equity shares of mines determined to be "strategic" under the country's most recent mining law. The move signals the GOM's seriousness in acquiring the anywhere from 0 to 50% stake in the country's most prominent mining developments, as allowed under the new legislation. The appointment of D. Zorigt, a young, well-known and generally respected technocrat with the Ministry of Industry and Trade, as ERDENES' Executive Director has been welcomed as a positive development by many in the expat business and mining communities who have recently grown pessimistic over perceptions of GOM and populist antagonism toward foreign mining companies. Zorigt has vowed to base his management of ERDENES on western-style best practices and is approaching donor agencies for assistance in setting up shop. END SUMMARY.

ERDENES: Origins, Purpose, Structure, Plans

¶2. (SBU) The GOM has created a state-owned company, ERDENES, to manage the GOM's expected share of equity in mines dubbed "strategic" by the State Great Hural (parliament). The new mineral law enacted last year provides the government the legal right to "take" between 0-50% of large mines. The GOM is preparing to negotiate detailed investment agreements (formally known as stability agreements) with international mining firms over prominent mineral development projects in which the GOM's (non-funded) equity share in mines could be a major sticking point.

¶3. (SBU) Econoff recently spoke with ERDENES' Executive Director D. Zorigt, who said that the company is modeled after Singapore's state-owned TEMASEK and will essentially be a wealth management company, overseeing the intake of mining profit dividends, advising the GOM on the selling of equity shares, and funneling income from

sales into the state budget to be reapportioned by parliament, some of it back to ERDENES. (Note: ERDENES' roles and functions have yet to be determined. For example, at a recent meeting between Comhoff and one of Zorigt's new staffers, the staffer related that Zorigt's initial plan was rejected by the State Property Committee (SPC). The staffer did not explain the SPC's reasons; however, she noted that they sent back suggestions, in which ERDENES would function more like a consulting firm for the GOM rather than as a wealth manager.)

¶4. (SBU) When questioned over how or even whether the GOM could pay for it controlling equity, Zorigt expressed confidence that the GOM will ante up one way or another, either through deferred dividends or tax breaks. Recent news of a reported investment agreement between Rio Tinto - Ivanhoe and the GOM (ref C) over the copper-rich Oyu Tolgoi development seem to bear this prediction out, although details are still sketchy (subject of future septel). Zorigt said the protracted and at times contentious negotiations with Ivanhoe had stalled over this very issue.

¶5. (SBU) ERDENES' 7-member Board of Directors will be made up of representatives from the Ministries of Justice, Industry and Trade and Finance, a representative from the Minister of Resources and Petroleum Authority (MPRAM) along with three persons from the State Property Committee. Ministry of Finance Financial Secretary (the Ministry's senior civil servant) Ch. Khurelbaatar, number three in the Ministry, will occupy the chair. Khurelbaatar has been the government's lead negotiator in the Rio Tinto/Ivanhoe negotiations.

¶6. (SBU) A long-time civil servant, Zorigt concedes little private sector experience, but intends to get the company off on the right foot, creating a transparent corporate structure, an open work plan

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and a proper management system. Wary of political dominance over state-run industries, especially ones with a hand in the country's largest money-maker, mining, he argues that the best way to shield the company from politics is to lock in a fully transparent organization based on western standards while the company is still in its infancy. To that end, he has approached, or plans to approach, the World Bank, EBRD and other donor sources for assistance. "It would be in everyone's interest if the company were structured and behaved like 'a normal private company'" he told Econoff. Although he admitted such thoughts were premature, Zorigt felt ERDENES might one day find itself listed on a major exchange, following the example of state-owned Shinua or China Telecom.
ERDENES Executive Director Zorigt Bio Notes

¶7. (SBU) By way of background, ERDENES Executive Director Dashdorj Zorigt is an up-and-coming technocrat who has proved a reliable and reasonable USG interlocutor on state-commercial issues. From 1994 to 2004 he worked in the Ministry of Foreign Affairs, including a stint as First Secretary at the Mongolian Mission to the UN.

¶8. (SBU) His appointment seems a positive step for a mining sector dogged by GOM missteps that have eroded investor confidence. The head of the Mongolian Mining Association proclaimed the selection "good news," and a prominent American banker added "I've known Zorigt for years and find him one of the promising young 'hopes' for [Mongolia's ruling party] the MPRP". He has repeatedly expressed concern to the DCM and others that GOM and Mongolia are gradually losing energy and commitment with respect to market economy principles.

¶9. (SBU) Since passage of the new mining law last year, the industry has accused the GOM of thwarting sector development by imposing extra-legal pressures, arbitrary judgments, hyper-bureaucratic headaches and preferential treatment. (refs A and B)

Goldbeck